

Message Text

CONFIDENTIAL

PAGE 01 MEXICO 07801 032055Z

15

ACTION ARA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03

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AMCONSUL CIUDAD JUAREZ UNN

AMCONSUL GUADALAJARA UNN

AMCONSUL HERMOSILLO UNN

AMCONSUL MATAMOROS UNN

AMCONSUL MAZATLAN UNN

AMCONSUL MERIDA UNN

AMCONSUL MONTERREY UNN

AMCONSUL NUEVO LAREDO UNN

AMCONSUL TIJUANA UNN

C O N F I D E N T I A L MEXICO 7801

E.O. 11652: GDS

TAGS: EFIN MX

SUBJECT: PRESIDENT'S INFORME; ECONOMICPOLICY SECTION

1. SUMMARY: PRESIDENT'S COMMENTS ON ECONOMIC POLICY WERE NEITHER DRAMATIC NOR DID THEY INDICATE ANY PROSPECTIVE DOMESTIC INITIATIVES IN THIS AREA. WHILE CRITICIZING THOSE WHO PUSHED ORTHODOX POLICIES THAT WOULD HAVE RESULTED IN STAGNATION HE REAFFIRMED THE 12.5 PESOS PER DOLLAR EXCHANGE RATE AS A VITAL PART OF MEXICO'S ECONOMIC POLICY AND DEFENDED FOREIGN BORROWING. PRESIDENT DID ADMIT THAT MEXICO'S INFLATION WAS DUE IN PART TO DOMESTIC FACTORS, THAT AGRICULTURAL SECTOR HAD BEEN NEGLECTED AND THAT PRIVATE INVESTMENT WAS DOWN. HE DEFENDED TAX INCENTIVES FOR PRIVATE INVESTMENT.

CONFIDENTIAL

CONFIDENTIAL

PAGE 02 MEXICO 07801 032055Z

END SUMMARY.

2. PRESIDENT ECHEVERRIA'S COMMENTS ON ECONOMIC POLICY IN HIS FIFTH STATE OF UNION MESSAGE (INFORME) DID NOT CONTAIN ANY SIGNIFICANT NEW PROPOSALS OR INDICATE NEW DIRECTIONS IN THIS AREA. ALTHOUGH HE SAID AN ECONOMIC ERA THAT BEGAN AT THE END OF WORLD WAR TWO WAS COMING TO AN END, AND THAT HIS ADMINISTRATION HAS REJECTED ORTHODOX SOLUTIONS THAT MIGHT LEAD TO STAGNATION, HE REAFFIRMED THE DOLLAR-PESO PARITY AS A VITAL PART OF MEXICO'S ECONOMIC POLICY AND THIS IS, PERHAPS, THE KEYSTONE OF THE ORTHODOX SCHOOL.

3. PRESIDENT CHARACTERIZED ANTI-INFLATION PROGRAM AS A "NEW DEVELOPMENT FINANCING POLICY," WHICH INCLUDES: (A) EFFECTIVE PLANNING AND CONTROL OF PUBLIC SECTOR EXPENDITURES; (B) "ADEQUATE" MONEY AND CREDIT POLICY; (C) PRICE CONTROL MECHANISMS; (D) EXPORT PROMOTION EFFORTS; (E) ANNUAL WAGE REVIEWS AND (F) INCREASED GUARANTEE PRICES FOR AGRICULTURAL PRODUCTS. THESE MEASURES, HE SAID, WERE REDUCING INFLATION THOUGH SOME ARE ONLY STOP-GAP. FOR THIS REASON, HE SAID, "WE WISH TO GIVE A SUBSTANTIVE RESPONSE TO THE BASIC PROBLEMS THAT THE WORLD CRISIS HAS CAUSED FOR NATIONAL ECONOMIES." PRESIDENT THEN DESCRIBED PROPOSAL FOR DEVELOPMENT OF THIRD WORLD WHICH WOULD PROVIDE FOR PERMANENT PROTECTION OF PRICES AND MEANS FOR MARKETING EXPORTS, AND FOR PROGRAMS OF MUTUAL SUPPORT. THIS WILL, HE SAID, PERMIT DEVELOPING COUNTRIES TO PARTICIPATE IN THE CONTROL OF WORLD TRADE WHICH IS NOW DOMINATED BY THE MAJOR POWERS' MANIPULATION OF SUPPLY AND DEMAND.

4. PRESIDENT ADMITTED THAT MEXICO'S INFLATION WAS DUE ALMOST AS MUCH TO INTERNAL AS TO EXTERNAL FACTORS. PUBLIC SECTOR SPEAKERS HAVE PREVIOUSLY BLAMED EXTERNAL FACTORS.

5. PRESIDENT DEFENDED LARGE INCREASE IN PUBLIC SECTOR INVESTMENT AS "ESSENTIAL FACTOR IN DEVELOPMENT" IN THAT IT TRANSFERS RESOURCES TO SECTORS WHERE THEY ARE MOST NEEDED AND HELPS MAINTAIN ADEQUATE DEMAND FOR GOODS AND SERVICES. LATTER POINT MADE IN REFERENCE TO "REDUCTION
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 MEXICO 07801 032055Z

OF PRIVATE INVESTMENT." HE DEFENDED FOREIGN BORROWING AS NECESSARY TO AVOID HAVING TO ABANDON PROJECTS THAT PROVIDE EMPLOYMENT AND BENEFIT THE GENERAL PROSPERITY. ECONOMIC GROWTH RATE WAS 6 PERCENT IN 1974, HE SAID, ADDING ONLY THAT THE ECONOMY WAS CONTINUING TO GROW IN 1975.

6. REGARDING EXTERNAL POLICIES, PRESIDENT SAID RECESSION

HAD HURT EXPORTS WHEREAS INFLATION HAD RESULTED IN HIGHER IMPORT COSTS. IMPORT PRICES, HE MAINTAINED, WERE UP 25 PERCENT ON AVERAGE WHEREAS EXPORT PRICES HAD NOT RISEN PROPORTIONALLY. THE INCREASED TRADE DEFICIT IS ONE OF THE PROBLEMS THAT MUST BE SOLVED URGENTLY, HE SAID, THEN DESCRIBING THE MEASURES TAKEN RECENTLY TO REDUCE DEFICIT. ON TRADE POLICY, HE SAID THAT DOMESTIC COMPANIES NOW GET PROTECTION ONLY IF THEIR PRODUCTS ARE OF HIGH QUALITY AND COSTS ARE COMPETITIVE INTERNATIONALLY.

7. PRESIDENT SAID THAT "TO MAINTAIN THE FULL CONVERTIBILITY AT THE PRESENT EXCHANGE RATE OF 12.5 PESOS PER DOLLAR CONTINUES BEING A VITAL PIECE OF THE MANAGEMENT OF OUR ECONOMIC POLICY." THE BANK OF MEXICO'S RESERVES, HE SAID, WERE DOLS 1,475 MILLION AS OF AUGUST 29. (COMMENT: THIS FIGURE IS DOLS 32 MILLION ABOVE YEAR-END FIGURE, AND DOLS 100 MILLION BELOW AUGUST 8 FIGURE. SEE MEXICO A-328.) PRESIDENT SAID SECONDARY RESERVES, INCLUDING INCREASED SWAP WITH NEW YORK FED, TREASURY SWAP AND IMF CREDIT TRANCHES TOTALED DOLS 1,285 MILLION. HE ADDED THAT BANK OF MEXICO COULD GET DOLS 400 MILLION MORE BY REVALUING OR SELLING ITS GOLD AT WORLD MARKET PRICES.

8. COMMENT: IN SPITE OF THINLY VEILED CRITICISM OF THOSE URGING A SLOWER RATE OF PUBLIC SECTOR INVESTMENT AND A SLOWER ECONOMIC GROWTH RATE, PRESIDENT DID NOT PROPOSE ANY SIGNIFICANT CHANGES IN ECONOMIC POLICIES HE HAS PURSUED OVER PAST FEW YEARS. COMMENTS ON ECONOMIC POLICY WERE FOR MOST PART A DEFENSE OF EXISTING POLICIES AGAINST CRITICS FROM RIGHT AND LEFT. PRESIDENT'S REMARKS RE PRIVATE SECTOR WERE MILD COMPARED TO THOSE MADE LAST YEAR. HE DEFENDED TAX INCENTIVES AGAINST LEFTIST CRITICS AND URGED PRIVATE SECTOR TO TAKE ADVANTAGE OF THESE. HIS CONFIDENTIAL

CONFIDENTIAL

PAGE 04 MEXICO 07801 032055Z

APPARENT ACCEPTANCE OF EXISTING DOMESTIC ECONOMIC POLICIES PROBABLY MEANS NO MAJOR POLICY INITIATIVES HERE. RATHER, HIS COMMENTS INDICATE THAT MEXICO WILL SEARCH AND/OR PRESS FOR SOLUTIONS IN INTERNATIONAL FOA. IN VIEW OF HIS SUPPOSED AMBITIONS, THIS MIGHT MEAN GREATER PRESIDENTIAL INVOLVEMENT IN THE ACTIVITIES OF FORA SUCH AS IMF AND WORLD BANK. IN IMPROMPTU REMARKS, HE REFERRED TO MCNAMAJRA'S SPEECH OVER WEEKEND TO EFFECT THAT ECONOMIC CRISIS IS DUE LARGELY TO INDUSTRIALIZED COUNTRIES AND THAT OPEC HAD PLEDGED MORE FUNDS FOR ECONOMIC ASSISTANCE THAN DEVELOPED COUNTRIES.

9. WE WILL REPORT SEPARATELY ON PRESIDENT'S COMMENTS REGARDING VARIOUS SECTORS OF ECONOMY. JOVA

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